

1 **ARIZONA CORPORATION COMMISSION**
Kathleen Coughenour DeLaRosa (#012670)
2 1300 West Washington, 3rd Floor
Phoenix, Arizona 85007
3 Attorney for Plaintiff
Telephone: (602) 542-0187
4 Fax: (602) 594-7408

5 **IN THE SUPERIOR COURT OF THE STATE OF ARIZONA**

6 **IN AND FOR THE COUNTY OF MARICOPA**

7 ARIZONA CORPORATION COMMISSION,)
)
8 Plaintiff,)
)
9 v.)
)
10 H. JON KUNOWSKI, a single man; PRECISION)
MODEL AND DESIGN, INC., a former Arizona)
11 corporation; AIR LASE, INC., a former Arizona)
corporation; AMERICAN INNOVATIVE)
12 RESEARCH, INC., a former Arizona corporation;)
JOHN DOES I-V; JANE DOES I-V; WHITE)
13 CORPORATIONS I-V; BLACK)
PARTNERSHIPS I-V; and XYZ LIMITED)
14 LIABILITY COMPANIES I-V,)
)
15 Defendants.)
)

No. CV 2004-010042

VERIFIED COMPLAINT
(Other Civil—Contempt, Securities
Registration Violations, Securities Fraud)

16 For its Complaint against Defendants, Plaintiff, the Arizona Corporation Commission,
17 pleads as follows:

18 **PARTIES, JURISDICTION, AND VENUE**

- 19 1. Plaintiff, the Arizona Corporation Commission (“ACC”), is a governmental entity
20 charged with enforcing the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* (“Securities
21 Act”).
22 2. Defendant H. Jon Kunowski (“Kunowski”) is an unmarried man and a resident of
23 Arizona.
24 3. Defendant Precision Model & Design, Inc. (“Precision”) was an Arizona corporation
25 incorporated on or about July 30, 1990, and administratively dissolved on or about January 10,
26 1996. Kunowski was a founder, officer, and director of Precision.

1 4. Defendant Air Lase, Inc. (“Air”) was an Arizona corporation incorporated on or
2 about May 9, 2001, and administratively dissolved on or about February 21, 2003. Kunowski was a
3 founder, officer, director, and statutory agent for Air.

4 5. Defendant American Innovative Research, Inc. (“American”) was an Arizona
5 corporation incorporated on or about May 9, 2001, and administratively dissolved on or about
6 February 21, 2003. Kunowski was a founder, officer, director, and statutory agent for American.

7 6. The ACC will amend this Complaint to allege the true names when it determines
8 the true names of Defendants “John Does I-V,” “Jane Does I-V,” “White Corporations I-V,”
9 Black Partnerships I-V,” and “XYZ Limited Liability Companies I-V.”

10 7. Defendants Kunowski, Precision, Air, and American collectively may be referred
11 to herein, in connection with the underlying administrative action and order, as “Respondents.”
12 Defendants Precision, Air, American, White Corporations I-V, Black Partnerships I-V, and XYZ
13 Limited Liability Companies I-V collectively may be referred to herein as the “Entity
14 Defendants.” Kunowski, John Does I-V, and Jane Does I-V collectively may be referred to
15 herein as the “Individual Defendants.” All Defendants may be collectively referred to herein as
16 “Defendants.”

17 8. At all times relevant to this complaint, Defendants resided in and/or conducted
18 business within or from Maricopa County, Arizona.

19 9. The ACC brings this action pursuant to A.R.S. §§ 44-2031 and 44-2032. Venue is
20 proper in this County pursuant to A.R.S. §§ 44-2031(B) and 44-2032(2) and (4).

21 **GENERAL ALLEGATIONS**

22 10. Defendants previously have engaged in acts, practices, and transactions constituting
23 violations of the Securities Act. On March 30, 2004, the Securities Division (the “Division”) of the
24 ACC served on Kunowski, for himself and as agent of Precision, Air, and American, a Temporary
25 Cease and Desist Order (the “Order”).

26 11. The Order alleged that beginning in or about March 18, 1990, and continuing

1 thereafter until the date of the Order, Kunowski offered and/or sold securities in the form of shares
2 of stock in Precision, Air, and/or American to at least 211 investors, most of whom were residents
3 of the state of Arizona. The Order further alleged that Kunowski collected from these investors at
4 least \$1,304,954 in connection with these stock sales.

5 12. The Order also alleged that, at the time of these transactions, the securities were not
6 registered for sale in Arizona pursuant to the requirements of the Securities Act, and Kunowski was
7 not registered as a dealer or a salesman pursuant to the provisions of the Securities Act, in violation
8 of A.R.S. §§ 44-1841 and 44-1842.

9 4. The Order also alleged that Kunowski violated A.R.S. § 44-1991 by making untrue
10 statements of material fact or failing to state material facts necessary to make his representations
11 not misleading in light of the circumstances. According to the Order, Kunowski's conduct in this
12 regard included:

13 a) Kunowski failed to provide investors and offerees with information adequate
14 to enable them to fully evaluate the risks of the investments. For example, Kunowski failed
15 to disclose to investors and offerees the past history of the Respondents including but not
16 limited to litigation against the Respondents, and past business failures of the Respondents.

17 b) Respondents offered and sold unlicensed or unregistered securities in the form
18 of shares of stock. While all investors were promised share certificates as evidence of the
19 investment not all of the investors received their share certificates.

20 c) Kunowski failed to fully disclose the purposes for which he intended to use
21 the investment capital, which included personal expenses and living expenses not directly
22 related to the companies. In fact, Kunowski used investor money for personal purposes,
23 paying personal expenses, taking vacations, etc. From \$1,304,954 of investor money raised,
24 Kunowski used approximately \$80,000 to advance the investment products in some manner,
25 and used the remaining funds for personal use. When questioned by investors, Kunowski
26 claimed the funds were "personal loans" to Kunowski. Kunowski never repaid these "loans."

1 d) Kunowski refused to provide investors full disclosure of financial records
2 pertaining to Respondents by denying access to financial documents concerning Respondents,
3 including but not limited to business receipts, accounts payable, accounts receivable, and other
4 financial records.

5 e) Respondents made a pattern and practice of soliciting and obtaining funds from
6 unqualified and unsophisticated investors.

7 f) Kunowski represented to investors that the devices or products were in the
8 production stage of development when in fact the products were either in the early design
9 stage only or were in the experimental stage prior to the development of a fully functional
10 prototype.

11 g) Kunowski offered investments in technology that did not exist or would have
12 been suppressed for copyright or trademark infringements. For example, Kunowski solicited
13 and obtained funds for an exclusive movie replica "light saber" that would duplicate or appear
14 to be an exact copy of a movie prop from the "Star Wars" motion pictures. Respondents never
15 obtained a license from the copyright/trademark holder Lucas, et al nor did the Kunowski ever
16 conduct due diligence, which would have enabled him to verify that such a product was
17 already in existence and properly licensed by its copyright/trademark holder.

18 h) Kunowski represented that he could produce a laser rendering machine at a
19 reasonable cost, without having any basis in fact to support that representation.

20 i) Kunowski represented he had backing to mass-produce such a machine,
21 when he had no basis in fact supporting that representation.

22 13. The Order further alleged that Kunowski had admitted he was currently engaged in
23 soliciting new investors or investor funds to pay off past investors and promote the future of the
24 investment products in which he is involved.

25 14. Despite being served with the Order on March 30, 2004, barring him from offering or
26 selling his investment, Kunowski has continued to raise funds, directly or indirectly through the Entity

1 Defendants or other entities and individuals, to finance his projects through offers and sales of
2 investment units, in direct and continuing violation of the ACC Order.

3 15. Upon information and belief, Kunowski had during his activities deposited investor
4 proceeds into bank accounts controlled by Kunowski, his associates, or other Defendants.

5 16. Upon information and belief, since March 30, 2004, Kunowski has continued to
6 control the Entity Defendants and the remaining Individual Defendants, and is continuing to direct
7 the business of all Entity Defendants and Individual Defendants.

8 17. Since March 30, 2004, Defendants have solicited investors in a variety of different
9 ways, including inviting investors to Kunowski's house and then offering them the investment(s).

10 18. Since March 30, 2004, Defendants' investment programs have continued to include
11 soliciting investments in laser technology devices. The current technology is said to include a laser
12 machine that can produce scale models, a laser scalpel, and a laser-powered "light saber" similar to
13 the weapon in the popular "Star Wars" motion pictures.

14 19. Since March 30, 2004, Defendants promoted the "Las Vegas Project" investment
15 programs by, *inter alia*, representing to potential investors that a scale model of the Playboy
16 Towers Hotel that purportedly was to be built in Las Vegas, Nevada was or soon would be on
17 display at the Bellagio Hotel in Las Vegas.

18 20. Since March 30, 2004, on information and belief, Defendants have violated the
19 ACC Order by raising at least \$60,000 from the offer and sale of investments they were barred
20 from offering or selling by the ACC Order.

21 21. On or about April 21, 2003, Kunowski offered an investment to an Arizona investor,
22 from whom he solicited an investment of \$2,000. Kunowski told that investor he had already
23 raised \$60,000 from investments by other investors.

24 22. On or about April 24, 2003, Kunowski offered an investment to another Arizona
25 investor, from whom he solicited an investment of \$2,500.

26

COUNT ONE
VIOLATION OF A.R.S. § 44-2032
(Contempt of Administrative Order)

23. The ACC incorporates by reference all allegations set forth in paragraphs 1 through 22 of this Complaint .

24. From about March 30, 2004, through the present, Defendants violated an Order of the ACC by continuing to offer and sell securities that were neither registered nor exempt from registration, in violation of A.R.S. § 44-1841, by continuing to sell securities without being registered as dealers and/or salesmen, in violation of A.R.S. § 44-1842, and by making misrepresentations or failing to disclose material information prior to offering and selling those securities, in violation of A.R.S. § 44-1991.

25. This conduct violates A.R.S. § 44-2032(1).

COUNT TWO
VIOLATION OF A.R.S. § 44-1841
(Offer and Sale of Unregistered Securities)

26. The ACC incorporates by reference all allegations set forth in paragraphs 1 through 25 of this Complaint .

27. From on or about March 18, 1990, through the present, Defendants offered or sold securities in the form of shares of stock or investment contracts, within or from Arizona.

28. The securities referred to above were not registered pursuant to Articles 6 or 7 of the Securities Act.

29. This conduct violates A.R.S. § 44-1841.

COUNT THREE
VIOLATION OF A.R.S. § 44-1842
(Transactions by Unregistered Dealers or Salesmen)

30. The ACC incorporates by reference all allegations set forth in paragraphs 1 through 30 of this Complaint .

31. Defendants offered or sold securities within or from Arizona while not registered as dealers or salesmen pursuant to Article 9 of the Securities Act.

32. This conduct violates A.R.S. § 44-1842.

COUNT FOUR
VIOLATION OF A.R.S. § 44-1991
(Fraud in Connection with the Offer or Sale of Securities)

33. The ACC incorporates by reference all allegations set forth in paragraphs 1 through 32 of this Complaint.

34. In connection with the offer or sale of securities within or from Arizona, Defendants directly or indirectly: (i) employed a device, scheme or artifice to defraud; (ii) made untrue statements of material fact or omitted to state material facts which were necessary in order to make the statements made not misleading in light of the circumstances under which they were made; and (iii) engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon offerees and investors. Defendants' conduct includes, but is not limited to, the following:

a) Kunowski failed to provide investors and offerees with information adequate to enable them to fully evaluate the risks of the investments. For example, Kunowski failed to disclose to investors and offerees the past history of the Respondents including but not limited to litigation against the Respondents, and past business failures of the Respondents.

b) Respondents offered and sold unlicensed or unregistered securities in the form of shares of stock. While all investors were promised share certificates as evidence of the investment not all of the investors received their share certificates.

c) Kunowski failed to fully disclose the purposes for which he intended to use the investment capital, which included personal expenses and living expenses not directly related to the companies. In fact, Kunowski used investor money for personal purposes, paying personal expenses, taking vacations, etc. From \$1,304,954 of investor money raised, Kunowski used approximately \$1,220,000, or 93% of the funds raised, for personal uses. When questioned by investors, Kunowski claimed these funds were “personal loans” to Kunowski. Kunowski never repaid these “loans.”

1 b) Kunowski refused to provide investors full disclosure of financial records
2 pertaining to Respondents by denying access to financial documents concerning Respondents,
3 including but not limited to business receipts, accounts payable, accounts receivable, and other
4 financial records.

5 c) Respondents made a pattern and practice of soliciting and obtaining funds from
6 unqualified and unsophisticated investors.

7 d) Kunowski represented to investors that the investment programs' devices or
8 products were in the production stage of development when in fact the products were either in
9 the early design stage only or were in the experimental stage prior to the development of a
10 fully functional prototype.

11 e) Kunowski offered investments in technology that did not exist or would have
12 been suppressed for copyright or trademark infringements. For example, Kunowski solicited
13 and obtained funds for an exclusive movie replica "light saber" that would duplicate or appear
14 to be an exact copy of a movie prop from the "Star Wars" motion pictures. Respondents never
15 obtained a license from the copyright/trademark holder Lucas, et al nor did the Kunowski ever
16 conduct due diligence, which would have enabled him to verify that such a product was
17 already in existence and properly licensed by its copyright/trademark holder.

18 f) Kunowski represented that he could produce a laser rendering machine at a
19 reasonable cost, without having any basis in fact to support that representation.

20 g) Kunowski represented he had backing to mass-produce such a machine,
21 when he had no basis in fact supporting that representation.

22 35. This conduct violates A.R.S. § 44-1991.

23 **COUNT FIVE**
24 **(Order Restoring Monies or Property)**

25 36. The ACC incorporates by reference all allegations set forth in paragraphs 1 through
26 35 of this Complaint.

37. Pursuant to A.R.S. §§ 44-2032(3), the ACC requests this Court to enter an Order restoring to current investors monies or property Defendants have acquired or transferred in violation of the Securities Act.

COUNT SIX
(Injunctive Relief)

38. The ACC incorporates by reference all allegations set forth in paragraphs 1 through 37 of this Complaint.

39. Upon information and belief, Defendants are in the process of conducting the same or similar business as the business described above and prohibited by the ACC's Order. Unless Defendants are enjoined and restrained from issuing additional securities, further violations of the Securities Act will occur and additional investors will be defrauded.

40. Pursuant to A.R.S. § 44-2032(2), the ACC requests this Court to enter a temporary restraining order restraining Defendants from offering or selling securities in or from the state of Arizona in violation of the Arizona Securities Act and the ACC Order; and after hearing on the order to show cause, enter a preliminary injunction enjoining Defendants from offering or selling securities in or from the state of Arizona in violation of the Arizona Securities Act and the ACC Order, to continue to the completion of this action.

41. Pursuant to A.R.S. § 44-2032(2), the ACC requests this Court to enter a judgment of permanent injunction, permanently enjoining Defendants from offering or selling securities within or from the state of Arizona in violation of the Arizona Securities Act and the ACC Order.

WHEREFORE, the ACC prays that this Court enter judgment as follows:

1. Enter a Temporary Restraining Order, without notice, against the Defendants restraining them from further violations of the Securities Act and the ACC's Order, pursuant to A.R.S. § 44-2032 and 44-2013(A);

2. Enter a Preliminary Injunction against the Defendants enjoining them from further violations of the Securities Act and the ACC's Order, pursuant to A.R.S. § 44-2032;

3. Order Defendants to be permanently enjoined from violating the Securities Act, particularly including A.R.S. §§ 44-1841, 44-1842, and 44-1991, pursuant to A.R.S. § 44-2032;

4. Order restoration to investors of monies or property Defendants may have acquired or transferred in violation of the Securities Act, particularly including A.R.S. §§ 44-1841, 44-1842, and 44-1991, pursuant to A.R.S. § 44-2032(3);

5. Order Defendants to take affirmative action to correct the conditions resulting from their acts, practices or transactions, including a requirement to make restitution pursuant to A.R.S. § 44-2032;

6. Order Defendants to pay the state of Arizona civil penalties of up to five thousand dollars (\$5,000) for each violation of the Securities Act, as the Court considers to be just and proper, pursuant to A.R.S. § 44-2037;

7. Enter an Order against the Defendants for contempt of the Order of the ACC,
pursuant to A.R.S. § 44-2032(1);

8. Order Defendants to pay the state of Arizona a civil penalty of not more than twenty thousand dollars (\$20,000) for each violation, as the Court considers to be just and proper, pursuant to A.R.S. § 44-2032(1)(a);

9. Order Defendants to pay the state of Arizona reasonable costs, including attorney fees, pursuant to A.R.S. § 44-2032(1)(b); and

10. Order any other relief that the Court deems appropriate.

Dated this 24 day of May, 2004.

ARIZONA CORPORATION COMMISSION

By /s/ Kathleen Coughenour DeLaRosa
Kathleen Coughenour DeLaRosa
Attorney for the Arizona Corporation
Commission

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1. I am the Director of Securities of the Arizona Corporation. In that position, I have authority to make this Verification on behalf of the Arizona Corporation Commission.

9 FURTHER AFFIANT SAITH NAUGHT.

SUBSCRIBED AND SWORN to before me this 24th day of May, 2004.

My Commission Expires
October 30, 2004

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